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IMPACT OF POLICIES ON
SMALL INDUSTRIES

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Impact of Policies on Small Industries

Probable impact of policies on small, medium, and large establishments was assessed by two methods:

By generating (mainly qualitative) data through addressing several sets of questions to entrepreneurs for their perceived answers (HIID/IND survey).

By analyzing market generated quantitative data.

In this paper, we analyze the former data set. Quantitative data are analyzed in more than one other papers.

The information about the utilization of incentives and about the problems faced and remedies suggested thereto by entrepreneurs was generated by about a dozen sets of questions in each of the factory-establishment and cottage-shop subsamples of the HIS questionnaire. Somewhat different sets of questions were addressed to (1) the entrepreneurs of factory establishments and (2) heads of household of cottage shops. They are briefly described below.

A. Data generated

- a. Specified sets of questions
relating to factory establishments

1. A set of 19 problems which entrepreneurs were asked to grade as serious, minor, not a problem, or not applicable (Record 14.11).

2. A set of 12 incentives, which entrepreneurs were asked to mark as widely used, moderately used, not used at all, or has no knowledge about it (Record 15.12).

3a. Assistance received by agency. Information on the extent to which entrepreneurs received assistance of various type from different agencies--BSCIC, NGOs (foreign and local separately), Bangladesh Government, Grameen Bank, in particular-- was also generated (Record 13).

3b. The utilization of incentives/subsidies was also judged by asking indirect questions. Anticipating the respondents' possible reluctance to answer questions on the loan taken or interest paid on different loans, we asked the question what percentage of loans he/she took from different sources (allowing the respondent the option to state in takes in case he/she so wished). Then, we added two questions on equity/debt ratio and outstanding debt. The presumption is that loans from DFIs, commercial banks, and BKB are the only ones on which a borrower can have concessionary rate of interest. Loans from moneylender and, in some cases, raw-material supplier are informal-sector loans on which no incentive can be availed of (Record No. 2.5.2).

b. Open-ended questions (Factory
Establishments)

In these sets of questions, respondents were asked to state their own reasons or solutions to the problem concerned, without any suggestion in the questionnaire. The answers were arranged by broad classes of reasons/solutions at the coding stage.

4. The respondent was asked to state two main reasons for not availing himself/herself of particular incentives or incentives in general, in case he/she had not (Record 13a).

5. Respondents were asked whether or not they ever applied for sanction. If they did, they were asked how long it took them to obtain the sanction after the first application. In case, in their judgment, undue delay occurred, they were asked to state possible causes of undue delay. (Record 1.3.10-13).

6. The respondent was asked to state upto 2 implementation practices that he/she would like to be followed by bureaucracy to promote growth and employment (Record 13b). HA6.

7. The respondent was asked to state, in case he/she so desired, up to two new policy measures that he/she would like to see undertaken to promote output and employment (record 13c).

8. Respondents were asked to judge good and bad years of the 1980s and then give reasons for good and bad years. These reasons are expected to throw some light on their problems and bright spots (Record 13).

c. Questions addressed to
cottage industries

9. Corresponding, but not quite the same, specified and open-ended question were addressed to cottage industries. A set of 22 problems, different from that addressed to factory entrepreneurs, was presented to the cottage shop heads of household: to be graded as serious, minor, not a problem, or not applicable (Record 12). The problems are expected to reflect to some extent on policies.

10. The next open-ended question was: "state upto two additional problems that you think are adversely affecting industrial growth" (Record 14.w).

11. With an eye on judging the family's satisfaction or dissatisfaction with the present cottage occupation, a few searching questions were posed to the head of household. One such question was whether he/she was "seriously considering leaving this occupation within 2 years." Two follow-on questions related to the reasons for thinking of leaving or not leaving that business.

12. The perception of the householder of his/her business, its viability, its income relative to income from outside employment, etc.; was further discerned by asking the question: "would you like your children to continue in this profession?" The respondents were asked to give major reasons for yes or no answers (Record 13.2).

13. The next question was: "what policy measures should the government undertake to promote or assist your establishment/professional well-being?" (Record 13.3).

14. Next we recorded the guesses of cottage shop owners as to the reasons that led to what in their judgment were bad years of the 1980s for them (Record 14.10.7.2).

15. Assistance received by agency, e.g., BSCIC, Bangladesh Government, NGOs, etc. (record 13).

16. Sources of credit form the next set of questions to cottage-industry households (record 3).

17. Finally, we calculate ERAs by size-class.

B. Substantive Results

Factory Establishments

1. Degree of seriousness Problems identified by entrepreneurs

The detailed tabulations of about a score of problems classified by entrepreneurs as "serious," "major," "not a problem," and "not applicable" by 12 subsectors and 6 size-classes are given in Appendix Table HA1. The results are summarized in text Tables H1a, H1b, and H1c. Due to the smallness of the sample, the individual cell values are probably not statistically significant. The results discussed in relation to size-class by subsector are subject to this qualification.

It may be seen from Table H1a that in aggregate, the only units in the mostly self-employed families with 1 to 3 adult-equivalent workers that face serious problems are in agrobased industries and light mechanical engineering. The garment industry seems to feel a relatively higher degree of intensity of its problems than other industries. The next down the line are fish and seafood, handloom, and light mechanical engineering industries. The highest perceived incidence of problems as among size-classes is found on size-class 6 (100-29-worker class). In general, the level of perceived problems jumps up once a firm gets above the 20-worker cut-off line.

The main problems in different subsectors are presented in Table H1b, where the top two problems for each subsector are identified. A surprising result is the high percentage (57%) of respondents for whom the most serious problem is the lack of easy availability of raw materials. This is further augmented by a related problem of the high price and low quality of raw materials. The only exceptions to this finding are electronics, seafood, and garments industry. The second most serious problem is procedural complexities. Lack of necessary minimum own resources for obtaining credit is the third biggest problem. There are other problems but not of major concern. For the rest, we will wait for support of these findings for the results of several sets of open-ended problems that will be discussed in subsequent paragraphs.

Among subsectors, the garment industry is atop with 61 percent of relevant respondents marking the specified problems as serious. Seafood and handloom are next with 36 percent and 33 percent marks. But the problems of seafood and garment industries are procedural complexities and lack of own minimum resources to qualify for loans rather than raw material problems. Incidentally these are export industries. Their raw material problems were solved by import liberalization. Procedural complexities pinch them the most. Jute and cotton mills, too, complain in high percentages about them. In general, thus, the export industries' main problem is procedural complexities. This is but natural as they have to meet schedules on product delivery, assure quality and standards, have to incur large interest cost on short-term credit, and so forth. Any undue delay caused by procedural complexities is costly to them. Prospective foreign investors fall in the same category.

Other industries are more handicapped by bottlenecks and low quality of raw materials, e.g., yarn for handloomers. These manufacturers are not directly impacted and perhaps less so by their implementation procedures, even though the quality, price, and supply of raw materials are indirectly influenced by substantive policies, though not necessarily by procedures. On the other hand, exporters and foreign investors are directly affected by bureaucratic complexities.

The seriousness of problems by size-class is summarized in Table H1c. Practically, only "lack of the availability of materials" is a problem felt by 1-9-worker size-classes. Looked at differently, the raw material-related problem hurts the small sector (upto 50 workers) the most. Recall that handloom and light mechanical engineering industries fall in that range. Procedural complexities present a major problem to the largest size-class, influential even though they are supposed to be.

Our personal experience about the raw material problem when we field-surveyed cottage industries is that a good part of raw material is supplied by the middleman, who often brings it from far-off towns, mostly from Dhaka. His profits might seem capturable to the cottage householder, if he/she could keep an inventory for which working capital is needed. Thus arises the problem of working capital, in conjunction with raw materials.

In summary, export industries and large units suffer from procedural complexities the most. The major problem of the import-substitution industries, especially those lying on the lower end of the size range relates to raw materials, which is more a problem of underdevelopment of the economy than policies per se.

2. Incentives availed of by entrepreneurs

Looking at the aggregates collected in Table H2a, we find significant differences in the degree to which various size-classes have availed themselves of the sum total of the 12 policies. This result may, however, be somewhat misleading, because the responses of small and large enterprises are appropriately measured within rather than between industries, for some industries do not have nonzero entries in all size-classes. In the industries in which all size-classes are represented differences are not significant. As between industries, the

highest use of incentives is made by ready-to-wear garments--a mean of 59 percent as against the overall mean of 26. Because of the fact that the industries that make relatively higher use of incentives consist of large enterprises, in overall terms large size-classes seem to benefit twice as highly from incentives as small ones.

To see the degree of utilization of individual incentives within each industry, one has to refer to the 48-page Appendix Table H2. The results for dominant widely used incentives are summarized in Table H2b. It may be seen that the policy instrument most desired by entrepreneurs is the ban on product imports. This is precisely what the economist in the context of Bangladesh would advise against. For the hidden consequences of bans on imports (analyzed in depth in Working Paper No. 16) are not easily viewable by self-interested entrepreneurs. Both the ultimate reason for the ailment of Bangladesh's industry and the remedy thereto are going to be a bad news to entrepreneurs, which the economist has to bring, particularly in view of the state of the economy seen in Working Paper No. 16.

The degrees to which different policies have either been availed of widely, or are believed to have benefitted entrepreneurs widely, or are preferred by them widely are discernable from the summary Table H2c. It may be seen that the excise tax rebate for capacity utilization and carrying forward losses for tax purposes are the least used concessions. The most preferred among all policies is ban on product imports.

Interestingly, tax holidays are liked by almost all size-classes of enterprises almost equally, with the exception of the units with fewer than 10 workers. Roughly the same is true about concessional import of machinery and high debt/equity ratio. Export promotion benefits are enjoyed largely by ready-to-wear garments--the larger the size of firm the higher the preference for export incentives. Bangladeshi manufacturers are all for protection. They prefer bans to tariffs immensely--another confrontation with the economist.

Relative preferences between policies, however, differ somewhat, depending upon the interests of industries. Protection is highly desired by wood furniture and the handloom industry across the board. In electrical appliances, electronics, and light mechanical engineering, protection is desired largely by lower-middle, 10-50-worker establishments. Tanning and leather want ban on import but are not concerned about export promotion. Garment makers are not worried about import ban, but want export promotion. Jute mills want both import ban and export promotion. In cotton textiles, mainly the largest size-class (800 workers or more) seems to respond to incentives, and of all sorts. The prime candidate for all sorts of incentives is size-class 6 (100-299-worker range), as may be seen from Table H2c. Finally, note that less than a quarter (22% to be precise) of respondents feel that the prevailing incentives are used widely. The remainder three-quarters seem to be affected by incentives only rarely.

3a. Agency assistance

received

The assistance received from various agencies is also, in part, the result of policies. Table HA3a contains tabulation of the number of respondents receiving 4 types of assistance: credit, marketing, training, and "other;" from 5 different agencies: BSCIC, NGOs (domestic), NGOs (foreign), Grameen Bank, and "others;" by subsector; and by size-class. A summary of these data by type of training, agency, and size-class is given in Text Table H3a. It may be seen that 17 enterprises in Size-Classes 4-99 workers received credit from BSCIC during 1987-88. This is about 4 percent of total respondents in these classes--not a bad record. Note that BSCIC units receive credit at a concessional rate of 9 percent rate of interest. Somewhat puzzlingly out of 3 entrepreneurs, 2 from large units received marketing assistance of some kind from BSCIC, 10 from 4-49-worker class received training, while 4 from the same range received other help.

Our ^{factory-establishment} sample has not picked up any of domestic NGO's clients or Grameen Bank's clients. The latter rarely happens to be ⁱⁿ the ~~factory~~ industry. Foreign NGOs gave credit to 6 parties--all in above 299-worker large size-class. It may be noted that major agency help is in the form of credit (202 respondents). The next in line but far smaller in numbers are in training (26), marketing (7), and other (8). In a sample of 592 units of which about 3 quarters are in small and medium size-classes, as many as 243 cases of assistance of credit, marketing, and training are

not a ~~small achievement~~.

3b. Sources of credit and
financial incentives

From sources of credit, we learn to what extent a size-class and subsector borrowed funds from the formal sector (where concessional credit is available to certain types of producers) and the informal sector (where no financial incentives exist). It is assumed that the formal sector, through which financial incentives are given, consists mainly of DFIs, BKS, and commercial banks. On the other side, borrowing from the moneylender and in some cases credit from the supplier of raw material are most likely to be at the informal-sector (usually 120 percent) rate. A relatively large part of credit, appearing under "other sources" is from family, friends, relatives, traders and the like. The terms of these loans vary. One thing is sure, however. These loans do not qualify for public, subsidized rates of interest or special windows.

The tabulations are given for the sources of credit in Text Tables H3b: by subsector, size-class, and gender of the entrepreneur. We find that four subsectors borrow from the moneylender, namely agrobased (1.3% of total credit), wooden furniture (2.56% of total), ready-made (local) garments (14%), and handloom (10.45%). Four subsectors borrow from the raw-material supplier: wooden (2.0%), jute manufacturers (0.86%), and

handloom (1.82%).

It is noteworthy that borrowing from the moneylender is not confined to the 1-19-worker size-class. In agrobased industries and wooden furniture, the 20-99-worker classes are the main borrowers from moneylenders. With regard to borrowing from raw-material suppliers, the fact that jute mills and tanning and leather subsector buy on credit from this source indicates the formal-sector buyer-seller credit relationships rather than necessarily the informal-sector lending at high interest rate.

The percentage of credit from the moneylender is relatively small in the agrobased industry, as may be seen from the following ratios:

	Moneylender's Credit as % of Total Credit (%)	Percentage of Credit from Money- lender to that from (Comm Banks+DFIs+ BKB) (%)
1. Agrobased industries		
a) Aggregate	1.32	11.4
b) Size-Class 2	4.00	133.3
2. Readymade garments		
a) Aggregate	14.00	19.6
b) Size-class 1	21.00	Infinity
3. Handloom industry		
a) Aggregate	10.45	79.3
b) Size-class 1	7.00	70.0
4. Wooden furniture		

a) Aggregate	2.56	108.5
b) Size-class 2	9	100.0

5. Total 11 subsectors

a) Aggregate	2.58	8.4
b) Size-class 1	2.55	15.4
c) Size-class 2	0.82	6.5
d) Size-class 3	0.0	0.0

Another finding worth noting is the positive correlation between the share of borrowing from the informal sector and the share of personal savings in equity capital. For latter information see Appendix Table HA3b. It is also interesting to note from that table that female entrepreneurs have contributed 100 percent of their equity capital from their personal savings.

4. Main reasons for not availing of incentives

Respondents were asked to give their own reasons for not availing themselves of various incentives. Detailed tabulation by size-class for 77 industries is given as Appendix Table HA4. Its summary table appears as Text Table E4. The highest number of checks are in Problem: "information not available." Interestingly, this answer is given by all size-classes across the board. In fact, this is the major reason given by the large size-class. Apart from that, small and medium size-classes are almost uniformly distributed among the 8 reasons of Table H4. The medium class gives somewhat more weight to administrative complexities, the small size-class to its inaction: "did not

try." Note that corruption is not a critical reason with entrepreneurs (Col.7) as it is with industrial leaders (WP# 12). As producers, entrepreneurs seem to have learnt to live with corruption without loud complaints.

In the ultimate analysis, entrepreneurs do not seem to value incentives very much. The respondents showing disinterest in incentives--as reflected by information not available, no comment, did not try, and inadequate knowledge--are 67 percent in Size-Class 1, 62 percent in Size-Class 2, and 72 percent in Size-Class 3, or 67 percent on the average of all size-classes.

5. Sanctions: Delays and their causes

The length of delay in obtaining sanctions and possible reasons for delay, as identified by entrepreneurs, for each of 77 industries, size-class, and urban-rural sector, are given in Table HA5. It may be seen from the summary Table H5 that the mean length of time from the first application for obtaining sanction is 7 months for small enterprises, 9 months for medium enterprises, and 3.5 months for large units. The reasons, as expected, are administrative complexities followed by corruption. This complaint has gone on and perhaps will go on until the procedures are drastically simplified.

6. Implementation practices suggested by entrepreneurs

It would be useful to hear from entrepreneurs what practices

they suggest to improve the implementation of existing policies to promote industrial growth. The information is classified by suggested practices, by size-class and industry in Appendix Table HA6 and is summarized in Text Table H6. Three of the suggested practices by each of the 3 size-classes are arrayed below:

	First Rank	Second Rank	Third Rank
1. Small industries	Make bank credit easy to obtain	Ban imports of product	Give govt. support and make policies flexible
2. Medium industries	Solve raw material problem	Make bank credit easy to obtain	Ban product import
3. Large industries	Solve raw material problem	Stop corruption	Give govt. support and make policies flexible
Overall	Make bank credit easy to obtain	Stop corruption	Solve raw material problem

Once again, the results are consistent with those seen in Table H1b and H1c. Raw material problem is in part created indirectly by high protection to traditional raw material producing industries. For the rest it is a development problem. Bank credit is important for industrialists. It is the ease of obtaining it and the simplification of procedures that industrialists are asking for rather than subsidized interest rate. Shortages arise due to subsidized interest rate. Naturally borrowers look mainly to their side. Bankers are also right when they say that applicants do not do their home work satisfactorily

and that a verification has to be done before giving a loan. Likewise, industrialists' demand for banning imports of their products is self-defeating. When economic propositions are brought to bear upon these practices, the implication is to eliminate rather than impose bans, which do more harm to the economy than they do good to the industry. Even the industry has been found to be harmed in the long run. Industrialists have to learn and endeavor to stand on their own feet rather than rely on more and more government support.

7. New policy measures
suggested by entrepreneurs

Entrepreneurs were asked to suggest policies which they consider will promote industrialization. These are classified in Appendix Table EA7. A summary table at the aggregate level appears in Table E7.

It may be seen that the most ardently suggested policy by small enterprises is a ban on imports and reduction of taxes on intermediate goods. Industries using locally made raw materials, e.g., handloom industry, yield high weights here. The medium industry wants easy access to bank loans the most, which is the second policy desired by small industries. The large industry is preoccupied with raw material difficulties. Their second policy prescription is a reduction in administrative complexities. There is no radical or novel policy suggestion. Those identified here are practically the same met earlier under alternative sets

of questions.

8. Good years, bad years and reasons for them as suggested by entrepreneurs

Entrepreneurs were asked to check out good and bad years for their firms during the 1980s. These were reported in graphical form in Working Paper No. 20. Here we present the reasons given by them for their categorizing the years as such. They are tabulated in Appendix Table HA8 and summarized in Table H8.

8a). Reasons for good and bad years as suggested by respondents

We tabulated the first-stated reason of each respondent separately from the second-listed reason. Apart from that the list of reasons of first and second answers is almost identical. See the results in Table HA8 and H8.

Increase in domestic demand is given as the major reason for good year and it is the first on the list by almost every respondent--a total of 178 first responses against merely 2 second responses. These are out of a total of 264 responses for 10 different reasons. Good harvest (27 responses) improved techniques (21), fall in input prices (12), and absence of labor unrest during the good year (8) are other significant reasons.

The only two policies that receive mention are import

restrictions (4) and reduced taxes (1). Industrialists may not have a good idea of why domestic demand increased for their products in some years and not others. A cursory look at good years across subsectors (Working Paper No. 20) indicates that probably good harvest is largely responsible for it. That is, indeed, confirmed in the second answer, where good harvest with 24 responses is second only to improved techniques. One would expect that from agriculture-industry linkages.

What is significant to note is that policies do not get the credit anticipated by policymakers. A second significant result to note is the role given to improved techniques of production. One is puzzled, however, by the latter answer when the tempo of growth in one good year did not last in subsequent years. Mainly Size-Classes 3, 4, and 8 give that reason. Perhaps the kind of new techniques they have experienced in Bangladesh are of short-run value and do not come out in a stream over years.

The reasons given for bad years are largely the reverse of those for good years, namely decrease in demand (91 first answer) and increase in input prices (63 first answer and 45 second answer). Floods appear as the third major reason with 56 responses.

In summary, the reasons given for good and bad years relate largely to economic reasons and scarcely to policies. Of course respondents may not know the hidden consequences of policies. But they do not blame them for bad years and do not acknowledge

their hope for good years.

C. Cottage Shops

A cottage shop is defined here as a nonagricultural economic activity carried out in residential premises, in one's home. The EID/IND Survey picked up 1279 valid cottage shops, which fall in 11 four-digit industries. The handloom industry accounts for a little more than half of the sample. (Note that 9.3 percent of the 592 permanent establishments of the survey, analyzed in Section B above, are also in handloom.) The next large groups of cottage shops are in pottery and clay products (16 percent), cane products (14.6 percent), and coil or mat making (10 percent). The remainder 7 industries account for less than 8 percent of the sample. The frequency distributions of both samples are given in Appendix Table E10a (permanent establishments) and E11 (cottage shops). Table E10 gives the number of units by 77 industries and 8 size-classes.

9. Degree of seriousness of problems faced by cottage industries

The problems identified as serious by cottage industries are given by subsector in Table E19. Aggregate results are presented in the text, Table E9. They are not classified by size-class,

as for all practical purposes, cottage shops are very small.

According to the percentages of responses which grade them as serious, the problems may be grouped as follows:

- | | |
|--|---|
| 1. High priority: more than 2/3rds consider the problem serious | 1. Lack of working capital (85%) |
| | 2. Procedural complexities (75%) |
| | 3. Lack of minimum own resources (68%) |
| 2. Low priority: between a quarter to 2/5ths consider the problem is serious | 1. Lack of roads |
| | 2. Rate of return too low |
| | 3. High price and low quality raw materials |
| | 4. Insufficient demand |
| | 5. Middlemen take a big chunk of sale value |
| | 6. Tough competition from smugglers |
| 3. Ignorable: Problem serious to a low fraction of respondents | 1. Irregular supply of electricity |
| | 2. Uncertainty of policy |
| | 3. Bribery |
| | 4. Competition from importers. |

It may be seen that, except for one problem, namely that of procedural complexities, which is related to policies, practically all high priority problems are, by and large, of underdevelopment and poverty. Smuggling is a policy-caused problem; but a remedy for it is a reduction in protection, rather than an increase. It hurts the handloom industry the

most. An enquiry into the problem of procedural complexities when hardly any incentives are being availed of by cottage shops suggested that they apply mainly to borrowing working capital, a lack of which is the top serious problem of these economic units. A concessional rate of interest of 10 percent to cottage and small industries has created expectations which cannot be satisfied by banks.

An implication of this result is that the solution to the problems of cottage industries is to be sought not as much in fiscal and financial incentives as in general economic development programs, such as investment in physical infrastructure, education, technology, employment-and-income-generating activities in rural areas, and the like. The latter policies will be streamlined more specifically once most of the findings of the analysis are in hand. Some such policy implications were tentatively derived in Working Paper No. 16.

10. Open-ended problems,
identified by cottage
industry entrepreneurs

Additional problems identified by entrepreneurs are tabulated in Table E10. In this list, major problems faced by cottage industries are lack of working capital (34.63% of responses) and lack of availability of raw materials of acceptable quality at normal price (29.34%).

Cottage shops are dominated by handloom industry, which accounts for 58 percent of respondents to this open-ended question. Out of the 10 problems listed by handloomers over 42 percent of responses are found for raw materials as a problem and 28.3 percent working capital as a problem. China an ceramic industry, on the other hand, finds working capital a much more serious problem than raw materials. Natural calamities share 11.7 percent of responses. Other pertinent problems mentioned are corruption (3.27 percent responses), demand fluctuations (3.15 percent), communication and transport (2.64 percent), and primitive mode of production (2.14 percent).

Both major problems--working capital and raw material--are essentially economic problems affecting small producers in general, rather than policy-caused problems. Recall (from preceding paragraph and Section B above) that the same problems were dominant for small industries also. It is the sum total of overall economic development policies that are relevant to cottage shops rather than fiscal and financial incentives. An emphasis on them may serve no more than a red herring. Their protection from mills is a social measure, not an economic measure.

11. Major reasons for contemp-
lating to leave the cottage
occupation

Practically, the only reason cottage shop entrepreneurs contempla- leaving their occupation is that they wish to go

abroad (see Table H11). The level of skill and education for recent fixed-term migrants to Middle East countries has not been demanding. Therefore, even illiterate adults aspire to go there.

Since the chances of going abroad are, however, not very high, the realities of the situation leave only 7.14 percent of respondents aspiring to do so. About an equivalent percentage of them see no scope for changing their calling. Over 85 percent state that viable alternative occupations that they may try are unknown to them. Evidently, there exists an information gap, even if alternative vocations existed for these households. Tragically, those who make their living by operating cottage shops, at whatever subsistence level that may be, seem to entertain little hope for more remunerative jobs. Within the given economic environment, they are evidently maximizing their incomes by continuing in the cottage occupation.

12. Major reasons for preferring
children to quit the cottage
occupation

Surprisingly, no more than 30 percent of cottage shop owners express their preference for their children to leave the cottage occupation (Table H12). About 20 percent so desire because the income from this occupation is not enough to make both ends meet and about 10 percent due to low returns from it.

The remaining 70 percent prefer their children to continue

in the cottage occupation. About 60 percent of these, or 41 percent of the total respondents, so prefer because they do not think their children can get better-paid employment elsewhere. A paltry 5 percent wish them to maintain their family tradition. Expectations for better days are low. Ambition to venture into risky occupations is weak. Perhaps the realities about the lack of their capacity to acquire outside employment, due for instance to low schooling and skill, and shortage of jobs, dictate these attitudes. The environment-caused poverty mentality seems to be prevalent among these households.

13. Measures suggested for the
promotion of cottage industries

When asked to suggest policies for the promotion of cottage industries, households listed three general ones, namely, give easier lending facilities, eliminate black marketing, and give adequate government support in general. See Table H13. Note that, while they would not be averse to cheaper credit, they seem to feel that borrowing from the formal sector is a complex affair--they desire a simplification of credit procedures. Handloom weavers seem to have been stung by smugglers. In general, all cottage industries desire increased support from government. Perhaps rural nonfarm producers think that urban industries get too much assistance from government and feel alienated themselves. This mentality is regrettable, inasmuch as self-employed rural families of South Asia are in general supposed to be more self-reliant than urban families. The recent influx of

NGOs, food for work program, and similar rural programs, on the one hand, and recurrent natural calamities which individual families by themselves cannot cope with, on the other hand, have perhaps enhanced the expectations of rural manufacturers for support from government.

14. Possible reasons that led
to bad years

Among cottage shops, lack of capital is felt to be the main culprit for Industry Code bad years for agrobased lines of production and least relevant for 3949 and 3950: broom and brush-making and cane products, as may be seen in Table E14. For handloomers (Code 3206), the cost of raw materials is considered by them to be mainly responsible for their bad years. For all the cottage shops combined among all possible reasons for bad years, lack of capital (presumably the credit crunch affected cottage industries also) and increase in input prices are major reasons stated by cottage householders.

On the other hand, for these poor industrialists, insofar as perceived bad years are concerned, corruption and possible political policy uncertainties are practically unknown factors. They rarely deal with the taxman, telephone office, electricity meter reader bureaucrats, and so forth. These practices are evidently important only where there are high profits and high propensity to indulge in.

Assistance by agency

Assistance by agency is tabulated in Table H15. It may be seen that Grameen bank is the largest lender to the ;cottage industry in our sample, with 18 loans to the handloom industry and 60 loans to the rest of the industries. Compare these numbers against the combined clientele of ESCIC, NGOs, and Bangladesh Government of 17 in handloom and 7 in other industries of this sample. It may be noted that foreign NGOs cater largely to the ;first 3 quintiles, Grameen Bank's clients range over the entire sample according to an inverted parabola, while the government lends mainly to the upper quintiles. The lending of local NGOs and other creditors steadily rises with the income of clients. The share of BSCIC is surprisingly small in the cottage industry.

Sources of credit

Handloom households in the cottage industry sample are also the biggest borrowers from the moneylender and the raw material supplier, s they were found in the factory establishment sample. Higher the quintile, the larger the proportion of handloom borrowers from the moneylender, as may be seen from Table H16. This underscores credit worthiness as an important factor for the supply of credit by moneylenders. It may also be seen that borrowing from the moneylender goes up as credit from friends and relatives goes down.

D. The ERA by Size-Class

Certain groups of classes, for instance small firms, may fail to avail themselves of an incentive (a) for lack of complementary resources (including contacts with and access to higher-ups) and (b) due to their perceived uselessness of the incentive concerned to them. (c) Some may simply not bother to collect information and even if they get the information, (d) they may simply not be disposed to take advantage of the incentive. In the latter three cases, policymakers can do little to help them. It is only in the first case that equitable treatment may call for obligation on the part of the society to enable less-fortunate (e.g., small) firms to acquire equality of opportunity with fortunate (e.g., large) firms, for instance by certain compensatory target-oriented policies.

On the opposite side, certain groups of firms may have significantly higher propensity to evade or avoid certain taxes and policy-imposed costs than others. An example of this behavior, once again, is small informal-sector establishments on which minimum-wage and other labor laws are, in general, hard to enforce.

Apart from differential capacities of different classes of firms to avail themselves of incentives due to particular firm characteristics, there are other factors due to which all firms may fail to take advantage of policies which are common to the entire industry.

The model of ERAs in a rudimentary form is depicted in a flow chart in Fig. H1. After the model is solved, the middle two sets of variables--(a) the effects caused by exogenously given firm and industry characteristics and (b) realized ERAs--become irrelevant, a la Tinberger [1956]. The objective variables (growth in Fig.1) are directly related to the policy instruments (statutory ERA) through the impact multipliers, which fully take account of the indirect effects of the variables which become now-irrelevant in the policy analysis..

The statistics of Table H4 about the reasons for not taking advantage of incentives yield the necessary parameters to modify the statutory policy variables for small and large firms. The information may be grouped as follows:

Percent of small firms not using incentives due to:

A. Factors beyond their control (which might be correctible by policies)

1. information not available = 30%
 2. inadequate knowledge = 9%
 3. inadequate resources = 6%
- Lack of information may, however, be, in part, due to an entrepreneur's own inaction "to go fetch" it.

B. Factors attributable to individual characteristics of entrepreneurs (not necessarily correctible by policies)

4. did not try = 16%
5. no comment = 14%
6. that part of the lack of information which is due to the negligence on the part of the entrepreneur.

With a view to taking the indicated firm characteristics into account, let the simplified relation for ERA be written as:

$$\text{ERA} = [(1+t_j - e_j + s_j) - \sum_i a_{ij}(1+t_i - s_i) - a_k(1+t_k - s_k) - a_n(w/w^*)] / v_j, \quad (1)$$

where w^* is the shadow wage rate and where taxes on material and primary inputs may be added in proportion to the weight of the respective domestically supplied input.

Let the α 's represent the degrees of utilization of incentives by small enterprises and let the corresponding degrees of utilization of incentives by large enterprises be denoted by β 's.

The size-class-specific relation will then be written as:

$$ERA_1 = [(1+t_j - \alpha_1 e'_j + \alpha_2 s'_j) - \sum_i a_{ij} (1 + \alpha_3 t'_i - \alpha_4 s'_i) - a_k (1 + \alpha_5 t'_k - \alpha_6 s'_k) - a_n (\alpha_7 w'/w^*)] / v_j \quad (2)$$

for small enterprises

$$ERA_2 = [(1+t_j - \beta_1 e'_j + \beta_2 s'_j) - \sum_i a_{ij} (1 + \beta_3 t'_i - \beta_4 s'_i) - a_k (1 + \beta_5 t'_k - \beta_6 s'_k) - a_n (\beta_7 w/w^*)] / v_j \quad (3)$$

for large firms,

where the primed policy variables indicate possible differential rates applicable to different size-classes. For instance, for small industries, the rate of interest = 10%, whereas for large industries, other than export and jute, in general market rate applies, which is 14-16 percent. To what extent small firms actually succeed in getting credit at 9 percent will depend on many complementary factors. Similar problems apply to the measurement of the use of various other incentives/policies. We approximate such uses of policies by the degree to which pertinent incentives/concessions are used "widely" by small and large enterprises. The results are summarized in Appendix Table EA12. From that table we develop

α 's and β 's of Relations (2) and (3) for small and large industries. ERAs for the industries or products for which the α 's and β 's are developed are presented in Table E17. These ERAs reflect the general picture of the industrial sector. Similar calculations for additional industries are in progress.

It may be seen that out of the 8 industries, small units have higher ERAs in 4 and large units in the remaining 4. Fiscal

and financial incentives, on the whole, favor large enterprises. Labor laws reduce the ERAs to large enterprises. Where share of labor in value added is high, large enterprises ~~cost~~ with lower ERAs, and vice versa where the share of capital value added is high.

The differences in ERAs between small and large industries are probably not significant. Minor though they are, would worry about these differences, were their impacts false. We have seen in alternative tests, however, that high ERAs have only unfavorable effects. Instead of inter-size competition in obtaining more assistance, which is a negative-sum game, the country needs to play a positive-sum game by reducing overall assistance.

E. Summary and Conclusions

An investigation into the extent of usage of incentives by small and large enterprises and about the policy and nonpolicy problems faced by them was carried out by scanning entrepreneurs' behavior and perceptions from over a score of different angles. The main findings are confirmed and reconfirmed by the multifaceted inquiry.

Factory establishments

Seriousness of problems. --The respondents who grade the seriousness of problems they face more highly than others belong to garment export, seafood, and handloom industries. In general, export industries and large units complain more of delays due to procedural complexities. Domestic-supply and relatively small industries feel more the lack of quality raw materials at reasonable prices. Possible reasons are that export industries, which are usually large, have to meet schedules of delivery and standards, while the problem of home-supply industries is that of underdevelopment of the economy, as reflected in the supply of raw materials by protected, high-cost industries. Thus, large and export industries face policy implementation problems, while home-supply and small units are not very concerned with policies. Their basic problem is that of economic underdevelopment.

Degree of usage of incentives.—Over a dozen incentives were graded by respondents. While significant differences in the degree to which different size-classes have availed themselves of the sum total of policies have been observed as between industries, within an industry differences are, in general, not significant. The reason is that there is hardly an industry in our sample, however, which has representation of all the 8 size-classes. As between industries, the highest number of respondents reporting the utilization of incentives is for export industries, especially ready-to-wear garments. Note that this is not the value of incentives but the intensity of the use of whatever incentives exist. Partly because the export garment industry falls in the range of large size-class, in the overall analysis, larger the size of firm the higher the preference for export incentives. Preferences, however, differ for some policies as between industries. The policy instrument most desired by entrepreneurs is ban on product import. This is precisely what the economist in the context of the present-day Bangladesh would advise against. For the hidden consequences of bans on imports are not easily viewable by self-interested entrepreneurs. In the overall sample, fewer than a quarter of respondents feel that the prevailing incentives are used widely.

Assistance by agency.—About 4 percent of respondents in the 4-to-99-worker size-class have received some kind of assistance from BSCIC. The bulk of the assistance is in the form of credit.

In general, between themselves, BSCIC, NGOs, and other agencies seem to have developed a sizeable program of assistance of the type of credit, training, marketing, and the like. What is lacking is assistance in raising the technological level and production innovations which are the main sources of growth of productivity.

Sources of credit.--Sources of credit vary as between subsectors and size-classes. Four of the 12 subsectors specially studied here are found to borrow from moneylenders, namely, agrobased; wooden furniture, readymade (local) garment, and handloom industries. Wooden furniture and handloom industries also borrow from the raw-material supplier. Both loans for these industries are available probably at the informal sector rates of interest. Interestingly, borrowing from the moneylender is not necessarily confined to small producers. It goes up to 100-worker units, though the bulk of it is confined to smaller units. As between finely demarcated size-classes, the ratio of credit from moneylender to credit from DFIs, BKB, and commercial banks is 133 for the 4-9-worker class in agrobased industry, very large in the 1-3-worker class in readymade garments, 70 percent for the 1-3-worker class in handloom, and 100 percent for the 4-9-worker class in wooden furniture. A high correlation is found between the share of borrowing from the informal sector and the share of personal savings in equity capital. It is also interesting to note that female entrepreneurs have contributed 100 percent of their equity capital from personal savings.

Reasons for not availing of incentives.--When asked about the reasons for not availing themselves of different incentives, we find that, in ultimate analysis, entrepreneurs do not seem to value incentives very much. The respondents showing disinterest in incentives--as reflected by information not available, no comment, did not try, and inadequate knowledge--are 67 percent in the 1-19-worker size-class, 62 percent in the 20-99-worker size-class, and 72 percent in the size-class having 100 workers or more, or 67 percent on the average of all size-classes.

Undue delay in sanctions .--The mean length of time taken for obtaining sanction from the date of first application is 7 months, 9 months, and 3.5 months, respectively, for the small, medium, and large enterprises. The range extends from zero up to 36 months. The main reasons given by entrepreneurs for undue delay are, as commonly known, administrative complexities and corruption.

Suggested implementation practices to promote industrialization.--When asked to suggest implementation practices to promote industrial growth, we got the following outcome.

	First Rank	Second Rank	Third Rank
1. Small industries	Make bank credit easy to obtain	Ban imports of product	Give govt. support and make policies flexible
2. Medium industries	Solve raw material problem	Make bank credit easy to obtain	Ban product import

3. Large industries	Solve raw material problem	Stop corruption	Give govt. support and make policies flexible
Overall	Make bank credit easy to obtain	Stop corruption	Solve raw material problem

While the remedies suggested by entrepreneurs have merit, they are neither entirely practical nor necessarily beneficial, even to them. This is due not only to a conflict between private interest and social interest. It is much the more a result of basic economic analysis. When economic propositions are brought to bear upon them, the remedies in some cases are diametrically the opposite to what entrepreneurs recommend. The economist, therefore, has to be bold in telling them so. In the case of credit, shortages arise, in part, due to subsidized interest rates. Bankers also have a point when they say that applicants do not do their home work satisfactorily and that proper verification has to be done before giving credit. Likewise, industrialists' demand for banning imports of their products is harmful for the country and usually self-defeating. Industrialists can legitimately ask for protection when a new industry starts. After a reasonable number of years, a reduction in protection is in order, certainly not an increase. Very sick industries ought to be allowed to die. Raw material problems, e.g., low quality yarn and fabric, are partly created by high protection. Much of corruption, rent-seeking, and smuggling is largely caused by controls, tariffs, and bans. Industrialists

have to learn and endeavor to stand on their own feet without crutches.

New policies suggested by entrepreneurs.--When industrialists were asked to suggest new policies to promote growth, there emerged no novel or radical policy suggestion. Impose a ban on imports is repeated again. There is not much evidence for awareness among industrialists of the value of real cost-reducing innovations and productivity, as distinguished from cost curves lowered artificially through fiscal and financial subsidies. When will the time come to think of competing against foreign products in the domestic market, as the garment industry has done in the competitor's terrain? Not a policy suggestion to that end has come from entrepreneurs!

Reasons for good and bad years.--When asked to grade each year of the 1980s as good or bad for their respective firm and then to give reasons for that, industrialists almost en bloc omitted practically any policy as a reason. Lack of demand as a cause of bad years and bumper harvest a cause of good years dominate their answers. Evidently, these are economic causes, i.e., development problems. Therefore, we should pay more attention to basic development problems, rather than become complacent by giving a financial facility here and a fiscal incentive there.

Cottage industries

Insofar as cottage industries are concerned, fiscal and

financial incentives are of tertiary importance. They face basic problems of economic development, typical of poor countries. Since economic development is a complex phenomenon, these largely illiterate people know of the proximate causes of their low earnings, but scarcely of the ultimate, macro factors that are the root cause of their low economic conditions. Major problems underscored by them are lack of demand for their products, lack of raw materials, and lack of credit. This is where the development economist's insight and analysis that discovers hidden causes and hidden consequences of policies and natural processes strains its limits. Productivity is low all around. Some of the donors, NGOs, and policymakers are too overly preoccupied with the short-run sustenance of poverty to pay attention to the long-run problems of the alleviation of poverty. Several are content with the primitization of the small producer economy rather than its modernization. But there are others who are very much concerned with rural prosperity and technological improvements. Even Grameen Bank is moving into productivity-increasing vocations, even though that is not a bank's role.

The country is very fortunate in developing and rapidly expanding a group-lending organization. This Grameen Bank concept may be adopted by other banks too. That should reduce the credit problem to the poor somewhat. At 25 percent rate of interest, nearly double of the market rate, Grameen Bank's clients are happy. There is no need to supply credit at 10%,

which is roughly 50 percent lower than the market rate. More supply of credit can be expected at the market rate. Banks will become viable. There is no need even to legislate against moneylender's high rates. Let the market determine different rates. There will then be less bemoaning of "lack of credit." What the policymaker can do is to generate domestic resources for more credit--not subsidies, not grants, not doles, but credit at market rate. That, I think, is Mohammad Yunus's message.

As regards the availability of raw materials, it would be a short-sighted policy to supply raw material at subsidized prices. The marketing of fertilizer is an instance. Let the raw material producer get what value the market puts on it. Via that route the raw material producer will be expected to act to lessen shortages. If the raw material producer is protected from competition and charges high price for low-quality stuff, the remedy is to let competitors enter. The economic need is for less not more regulation.

The ERA

There are about two-dozen fiscal and financial incentives available to industries in general, over a dozen to exports, and about a dozen restricted to small (ESIC) industries. In addition, there are labor laws, such as minimum wages, health and injury insurance, job security, and other amenities and facilities, which may affect industries of different sizes disparately. Domestic price and quantity controls and other regulations complicate the assistance process still further.

In the foregoing sections, we tried to look at the impact of individual policies of various kinds by small and large industries. It is not easy, however, to tell to what extent one policy may offset the impact of another. An appropriate relation to estimate the differential net affects of all relevant policies is the ERA. When it comes to large and small industries, however, fine tuning by size-class is not easy. Nevertheless, since much of the data on policies has been collected in this project, we tried to do this research also. This work is still in-progress. A few preliminary results indicate that the advantages that small enterprises have from their relatively higher propensity to bypass labor legislation are, by and large, offset by their low capacity to benefit from fiscal and financial incentives.

Table H1a.—Problems considered serious by entrepreneurs,
HIS: factory Establishments

Subsectors	Percent of Responses Checking 18 of the Problems as Serious by Size-Class								Total
	1	2	3	4	5	6	7	8	
Percentage of Responses Marking Problems Serious									
1. Agro	33	17	15	17	0				21
2. Jute							12	26	19
3. Cotton			0	25	37		5	34	28
4. Elec. Appl.		20	17	17		22			19
5. Electronics				33	10				12
6. Fish				62	10	29	53		39
7. L.M. Engr.	30	13	12	17	7	100 ^b			30
8. Garments					75	75	20		57
9. Tanning			10	14			50		25
10. Handloom		25	30	33	41				32
11. Furniture	0	20	11	17					12
Mean	32	19	14	26	25	57	28	30	27

	No. of Responses Marking Problems Serious								Total
	1	2	3	4	5	6	7	8	
1.	1	4	19	10	0				34
2.							1	22	23
3.			0	3	3		1	21	28
4.		1	1	1		2			5
5.				1	1				2
6.				5	1	9	9		24
7.	3	6	12	14	1	2			38
8.					6	5	2		13
9.			7	3			6		16
10.		2	11	20	7				40
11.	0	9	4	5					18
Total	4	22	54	62	19	18	19	43	154

Note:— Size-classes when expressed in terms of the number of workers in this project are defined below:

No. of Workers When Size-Classes Are

Size-Class	8	6	3	2
1	1- 3))
2	4- 9		) 1-19	) 1-19
3	10- 19))
4	20- 49		) 20-99)
5	50- 99))
6	100-299	) 100 &	)	) 20 &
7	300-799	) Over	) 100 &	) Over
8	800 & Over	)	) Over)

^b There are only 2 units in this size-class. Both state the problems are serious. The sample is too small to be generalized.

Table H1b.—Top two problems in each subsector that are considered serious,
HIS: Factor Establishments^a

Subsector	No. of Responses by Selected Problems (Only top 2 positions are filled)								
	Lack of Availability of Raw Materials	Inadequate Facilities	Procedural Complexities	Political Inflation among Workers	Lack of Minimum Necessary Resources	Lack of Spare Parts	Total Serious Responses	Total Relevant Responses	% of Total
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
1. Agro	20	4					34	222	15
2. Jute	5		3				23	94	24
3. Cotton	7		6				28	108	26
4. E. Appl.	2	1					5	26	19
5. Electronics			1	1			2	13	15
6. Fish			5		4		24	66	36
7. L.M. Engg.	2	5					38	260	15
8. Garments			4		4		23	38	61
9. Tanning	8	2					16	101	16
10. Handloom	32					4	40	122	33
11. Furn.	16					2	18	127	14
12. Total Lines 1 through 11	111	12	19	1	8	6	251	..	..
13. Total relevant responses	194	143	87	92	102	165	..	1,777	..
14. 12 as % of 13	57	8	22	1	8	4	..	..	..

^a There are two totals in Tables H1-P3: The first one is the sum of "serious" problems across all size-classes. The second is the total of all relevant responses, where the term relevant is used to denote the responses that grade each problem, namely it is the sum of problems marked as "serious," "minor," and "not a problem."

Table H1c.—Problems felt seriously by size-class, H1S: Factory Establishments

	No. of Responses Indicating Problem Is Serious by Size-Class								Total Responses	Total Relev. of 10 cases	9 as % of 10 (11)
	1 (1)	2 (2)	3 (3)	4 (4)	5 (5)	6 (6)	7 (7)	8 (8)				Total (9)
1. Lack resources		1	2	5	4	4	3	5	24	102	24
2. Proced. complex.			2	3	3	4	4	8	24	87	26
3. Raw materials			5	6	1	4	2	6	24	143	17
4. Unions				1	1	2		3	7	129	5
5. Pol. Infl. Workers			1	3	1	3	1	2	11	92	12
6. Roads					1	1			2	23	9
7. Middlemen						2			2	24	8
8. Insuff. demand						2	2	3	7	41	17
9. Delay in imports							1	1	2	80	3
10. Lack tech.			2	1	1	4	3	2	13	98	13
11. Lack spares		3	3	6	1		1	6	20	165	12
12. Difficulty of RM	4	18	39	37	6	1	2	8	115	194	59
13. Lack work cap.											
14. Electricity											
15. Smuggling											
16. Rate of return low											
17. Uncertain policies											
18. Corruption											
19. Total Lines 1 through 17	4	22	54	62	19	28	19	43	251	1177	21
20. Total relevant responses	24	140	382	282	58	62	81	148	1177	1177	..
21. 19 as % of 20	17	16	14	22	33	45	23	29	21	100	..

Table H2a.—Incentives availed of widely by entrepreneurs, 12 selected incentives, HIS: Factory Establishments.^a

% of Respondents Using 12 of the Incentives "widely" by Size-Class									
Subsector	1	2	3	4	5	6	7	8	Total
Percentage of Those Using Incentives "widely"									
1. Agro	14	17	15	19	7				14
2. Jute							14	24	19
3. Cotton			0	8	37		10	25	16
4. Elec Appl.	0	20	20	23	12	22			16
5. Electronics				35	33				34
6. Fish & Seafood				62	10	28	53		36
7. L.M.Eng.	27	17	12	15	21	100	8		29
8. Garments					75	56	45		59
9. Tanning		28	12	17			48		25
10. Handloom	25	26	25	7	41				25
11. Furniture	0	17	11	13	27				14
Mean	13	21	14	22	29	52	30		26
Number of Those Using Incentives "widely"									
1. Agro	1	7	25	13	3				49
2. Jute							8	45	53
3. Cotton			0	1	3		4	31	39
4. Elec. Appl.	0	4	13	10	1	2			30
5. Electronics				8	6				14
6. Fish				5	1	11	9		26
7. L.M.Engg.	4	12	19	18	9	2	1		67
8. Garments					6	23	10		39
9. Tanning		2	10	5			11		28
10. Handloom	2	5	12	5	7				31
11. Wood Furn.	0	10	4	6	4				24
12. Total	7	40	83	71	40	38	43	76	398

Table H25--Top two Policies that are considered to have been "widely" used or effective, HIS: Factory Establishments

Subsector	No. of Respondents by Selected Policies (Only Top 2 Positions Are Noted)						Total Relevant Responses
	Ban on Import	Tariff on Import	Concess- ional Import of Mach- inery	Conces- sion on Excise Tax	High Debt/ Equity Ratio	Export Promo- tion ^a	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
1. Agrobased	30				5		49
2. Jute	16					11	53
3. Cotton	7		8			12	39
4. Elec.Appl.	12	5					30
5. Electronics						4	11
6. Fish	4		10				26
7. L.M.Engg.	39	6					65
8. Garments			9			16	39
9. Tanning	14					5	28
10. Handlooms	19	5					31
11. Furniture	17	2					24
12. Total	158	18	27		5	48	395

^aIncludes WES, B-to-B LC, warehouses, and XPS.

H20

Table 52c—Policies availed of "widely" by size-class,
HIS: factory Establishment Sample

Policy	No. of Responses Ticked "widely" for the Use Or Impact of Policies by Size-Class								Row Total
	1	2	3	4	5	6	7	8	
1. Tax holidays	0	2	7	6	5	5	7	10	38
2. Concessional duties on machinery	0	0	4	8	7	10	9	11	44
3. High debt/equity ratio	0	1	5	8	3	4	4	5	30
4. Carrying forward losses	0	0	0	1	3	2	1	8	9
5. WES, LC, XPS, warehousing	0	0	2	9	7	14	12	14	50
6. Concessional excise	0	0	0	0	0	1	1	0	2
7. High tariff beneficial	2	1	9	8	1	0	2	10	25
8. Ban on import beneficial	7	30	79	30	14	2	7	17	173
9. Col. Total	9	34	106	70	40	38	43	76	416
10. Grand Total of relevant responses of all grades	34	215	509	422	170	91	167	313	1922
11. 9 as % of 10	26	16	21	17	24	42	2	24	22

Table H3a.—Agency assistance by size-class, type of assistance, type of agency, and subsector, HIS: Factory Establishment Sample

No. of Responses by Agency and Type of Assistance

Size-Class	ESIC				Domestic NGOs			
	Credit	Marketing	Training	Other help	Credit	Marketing	Training	Other help
1.00	0	0	0	0	0	0	0	0
2.00	2	0	2	1	0	0	0	0
3.00	7	0	2	0	0	0	0	0
4.00	4	1	4	3	0	0	0	0
5.00	4	0	2	0	0	0	0	0
6.00	0	0	0	0	0	0	0	0
7.00	0	1	0	0	0	0	0	0
8.00	0	1	0	0	0	0	0	0
Total	17	3	10	4	0	0	0	0

Size-Class	Foreign NGOs				Grassroots			
	Credit	Marketing	Training	Other help	Credit	Marketing	Training	Other help
1.00	0	0	0	0	0	0	0	0
2.00	0	0	0	0	0	0	0	0
3.00	0	0	0	0	0	0	0	0
4.00	0	0	0	0	0	0	0	0
5.00	0	1	0	0	0	0	0	0
6.00	0	0	0	0	0	0	0	0
7.00	2	0	0	0	0	0	0	0
8.00	4	1	0	0	0	0	0	0
Total	6	2	0	0	0	0	0	0

Size-Class	OTHERS			
	Credit	Marketing	Training	Other help
1.00	3	0	0	0
2.00	21	0	0	0
3.00	52	0	2	0
4.00	41	0	1	3
5.00	16	0	0	1
6.00	8	1	0	0
7.00	14	1	5	0
8.00	34	6	8	0
Total	179	2	16	4

H3b

Table B3b.—Source of Credit by male and female entrepreneurs,
 HUID factory survey 1989-90

Subsector	Size class	Source of credit %						Total
		Comm bank	DFIs	BKB	Money lender	RM Supplier	Other	
1. Agrobased								
Male		7.53	2.63	1.32	1.32	0	87.1	100
	size 1	10	2	1			87	100
	size 2	0	3		4		93	100
2. Electronics								
Male		25	0	0	0	0	75	100
	size 1							
	size 2	25					75	100
3. Electr. appliances								
Male		3.45	0	0	0	0	96.55	100
	size 1							
	size 2	12						
	size 3						88	100
4. Wooden furniture								
Male		2.36	0	0	2.56	2.56	92.52	100
	size 1							
	size 2	9			9	3	97	100
Female							82	100
	size 1							
	size 2							
	size 3							
5. RM Garments								
Male		71.43	0	0	14	0	14.57	100
	size 1	0			21		79	100
	size 2	25					75	100
	size 3	57					43	100

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Table Bb. —contd.

6. Tanning & leather								
Male		3	7.5	2.5	0	2	85	100
size 1		0	3	3			94	100
size 2		15				10	75	100
size 3		0	50				50	100
7. Fish & sea food								
Male		10	0	20	0	0	70	100
size 1		0		50			50	100
size 2								
size 3		16		16			58	100
8. Light Mech. Equip.								
Male		2.56	0	0.57	0	0	96.37	100
size 1		3					57	100
size 2								
size 3								
Female								
size 1								
size 2								
size 3								
9. Jute textile								
Male		34.33	49.25	0	0	0.36	14.36	100
size 1								
size 2								
size 3		40	41				29	100
10. Cotton textile								
Male		18.75	59.23	0	0	0	21.37	100
size 1			100				0	100
size 2		25	25				50	100
size 3		20	70				20	100
11. Handloom textile								
Male		5.91	5.45	1.32	10.45	1.82	74.55	100
size 1		3	7		7	3	30	100
size 2								
size 3								
Total								
Male		16.92	11.61	2.33	2.58	0.66	65.95	100
size 1		1.45	10.18	4.91	2.55	0.55	80.36	100
size 2		10.09	2.55	0	0.82	0.91	85.63	100
size 3		12.09	23.73	1.45	0	0	62.72	100
Female								
size 1								
size 2								
size 3								

Table #4.—Reasons for not taking advantage of incentives by size-class

Size-Class Workers	Respondents Giving Following Reasons									Total Sample Respon- dents
	Info Unav- ailab- le	No Com- muni- ty	Dis- not try	Com- plex- ities	Prob- Bank Loan	Lack Know- ledge	Cor- rup- tion	Lack Min- Neces- sary Funds	R&W Total	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Number										
1. Small:1-19	120	56	62	37	37	20	34	24	390	349
2. Med:20-99	32	24	8	15	11	1	6	8	105	160
3. Large:100&+	10	12	3	10	0	1	0	0	36	83
4. Total	183	82	73	62	48	22	40	32	529	592
Percentage of Sample Total										
1. 1-99	34	16	18	10	10	6	10	7	112	100
2. 20-99	20	15	5	9	7	1	4	5	66	100
3. 100&+	12	12	4	12	0	1	0	0	43	100
4. Total	31	14	12	9	8	4	7	5	89	100
Percentage of Row Total Reasons										
1. 1-19	30.4	14.3	16.1	8.9	8.9	5.4	8.9	6.2	100	..
2. 20-99	30.3	22.7	7.6	13.6	10.6	1.5	6.1	7.6	100	..
3. 100&+	27.8	34.2	9.8	27.8	0.0	2.4	0	0.0	100	..
4. Total	30.6	18.0	13.5	11.6	9.0	4.5	7.9	5.6	100	..

Table B5.—Sanctions: length of and causes of delay, HIS : factory Establs.

Size- Class	No. of Units Applied for	Mean No. of Months for Sanc- tion	Respondents by Reason of Delay		
			Adm. Complex.	Corrup- tion	Lack Cap.
No. of Responses					
1. Small	77	6.8	26	8	1
2. Medium	72	8.7	16	1	2
3. Large	30	3.5	3	0	0
Total	179	7.0	45	9	3
As % of Total Units					
1. Small	31	67	34	10	1
2. Medium	46	25	22	1	3
3. Large	23	8	10	0	0
Total	100	100	25	5	2

Source: Appendix Table B5.

Table H6.—Implementation practices suggested by entrepreneurs,
HIS: Factory Establishments

Sl No.	Ind Code	Size Class	Info not available	No Com-ments	Intro. Modern tech. of Prod.	Solve Admin. Prob.	Easy Bank Loans	Ban Imp. & re-duce Tax on Interna Goods	Stop Cor-ruption & Smug-ling	Solve Prob. of raw Mater-ials.	Give Govt. supp-ort & Make flexi-ble Policy	Row Total
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)
No. of Responses												
			105	52	13	16	62	34	25	18	31	356
			22	5	1	0	13	14	15	19	9	103
			9	12	8	4	1	0	17	20	15	86
			Total 136	69	22	20	81	48	57	57	55	495
As % of total Sample Respondents of Class 1=349; Class 2=160; Class 3=83; Total=592												
			30	15	4	5	18	10	7	5	9	102
			14	3	1	0	11	9	9	12	6	64
			11	14	10	5	1	0	20	24	13	104
			Total: 23	12	4	3	14	8	10	10	9	84
Row % of the preceeding 4 lines:												
			29.4	14.7	3.9	4.9	17.6	9.8	6.9	4.9	8.8	100
			21.9	4.7	1.6	0	17.2	14.1	14.1	18.7	9.4	100
			10.6	13.5	9.6	4.8	1.0	0	19.2	23.1	17.3	100
			27.4	14.3	4.8	3.6	16.7	9.5	12.0	12.0	10.7	100

Table H7.--Policy measures suggested by entrepreneurs, by size-class,
HIS: Factory Establs

Sl No.	Ind Code	Size Class	Not Avail- able No Com- ments	Change Exist- ing Govt Policy and Support	Reduce Adm. Complex. & improve Trans. & Communi- cation.	Easy Access to loans & Lower Interest	Stop Smugg- ling & Corrup- tion	Provide BMR fa- cilities Improv. Prod. Tech.	Solve Raw Mat. Prob. Reduce Taxes on int- ern Goods	San Imp- orts & Reduce	Row Total
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
Total No. of Responses											
		1.	113	49	14	66	6	33	63	73	427
		2.	16	8	4	43	3	6	14	14	108
		3.	10	0	4	3	2	2	18	0	39
		Total	139	57	22	112	11	46	95	92	574
As % of total sample respondents of class 1 = 349; Class 2=160; Class 3=83; Total=592											
		1.	32	14	4	19	2	11	13	22	123
		2.	10	5	3	26	2	4	9	9	68
		3.	12	0	5	4	2	2	22	0	47
		Total	19	8	3	14	1	6	14	13	77
Row 2 of the preceding 4 lines											
		1.	26.2	11.5	3.3	15.6	1.6	9.0	14.8	18.0	190
		2.	14.7	7.4	4.4	38.3	2.9	5.9	13.2	13.2	190
		3.	25.5	0.0	10.6	8.5	4.3	4.3	46.8	0.0	130
		Total	26.4	11.1	4.2	15.3	1.4	8.3	15.3	18.0	190

Source: Table HA7.

Table H8.—Reasons given by entrepreneurs for good and bad years, HIS:
Factory Establishments Sample

REASON	Size Class								TOTAL
	1	2	3	4	5	6	7	8	
FIRST REASON FOR GOOD YEAR									
Increase domestic demand.....	7	30	64	47	14	3	4	7	176
Good harvest.....	5	4	9	6	3				27
Import restriction.....				2	2				4
Reduced taxes.....			1						1
Fall of input prices.....	1		3	2	1		1	4	12
Improved techniques.....			6	5	2		3	5	21
Absence of labor unrest.....				3	3			2	8
Improved infrastructure.....	1		2	1			1	2	7
Increase in export demand.....							1	1	2
Other.....			3			1		2	6
TOTAL.....	14	34	88	66	25	4	10	22	264
SECOND REASON FOR GOOD YEAR									
Increase domestic demand.....		1		1					2
Good harvest.....	2	5	14	2	1				24
Import restriction.....			1	1	1				3
Reduced taxes.....			1	1					2
Fall of input prices.....		3	4	4	2		1	1	15
Improved techniques.....		5	7	8	1	2	2	7	32
Absence of labor unrest.....	2	3	5	4	2		2	3	21
Improved infrastructure.....		1		1	1			5	8
Increase in export demand.....	1	2	2	3			2	1	11
Other.....		1	7	2	1	1			12
TOTAL.....	5	21	41	27	9	3	7	17	130

Table B8—Contd.

REASON	Size Class								TOTAL
	1	2	3	4	5	6	7	8	
FIRST REASON FOR BAD YEAR									
Decrease in domestic demand....	5	19	30	26	4	3	1	3	91
Bad Harvest.....	4	1	9	2	1				17
Import liberalization.....			1	2	1		1	1	6
Increase in taxes.....		1	1					1	3
Increase in input prices.....	1	7	19	15	6	1	1	11	63
Increase in smuggling.....				1				1	2
Labor unrest.....			1				1	9	11
Deterioration in infrastructure.....			1	1	1		1		4
Political instability.....			5	2	1		3	2	13
Flood & other natural calamities.....		4	5	3	1				13
Decline export demand.....			1			1	1	8	11
Other.....		1							1
TOTAL.....	10	33	73	52	15	5	11	36	225
SECOND REASON FOR BAD YEAR									
Decrease in domestic demand....		1	1	1					3
Bad Harvest.....		1	2						3
Import liberalization.....			1	1				1	3
Increase in taxes.....				1					1
Increase in input prices.....	2	8	16	10	1		1	7	45
Increase in smuggling.....			4	4	1			2	11
Labor unrest.....		1					3	8	12
Deterioration in infrastructure.....	1	1	2	3	2	1		4	14
Political instability.....		2	1	1	3	2	1	8	18
Flood & other natural calamities.....	6	7	20	18	4	1			56
Decline export demand.....			3	1			3	1	8
Other.....		1	1	1					3
TOTAL.....	9	22	51	41	11	4	8	31	177

Table H9.—No. of responses grading specified problems as serious
HIS: Cottage industry sample

Problem	Responses Grading the Problem as Serious			
	No.	Relevant Responses	1 as % of 2	1 as % of Total Respondents (1279)
	(1)	(2)	(3)	(4)
a. Lack min. own resources	864	1278	68	68
b. Procedural complexities	969	1298	75	76
c. High price & quality RM	418	1269	33	33
d. Lack of all-weather roads	519	1298	40	41
e. Middlemen take away chunk	323	1211	27	25
f. Insufficient demand	363	1275	28	28
g. Lack of spare parts	1	1183	0	0
h. Lack of raw materials (RM)	110	1277	9	9
i. Lack of working capital	1089	1276	85	85
j. Irreg. supply of electricity	26	213	12	2
k. Rate of return too low	465	1276	36	36
l. Uncertainty of policy	84	1120	8	7
m. Bribery	26	903	3	2
n. Lack of fuels	193	1024	19	15
o. Tough competition from mills	251	1243	20	20
p. Tough comp. from importers	16	249	6	1
q. Tough comp. from smugglers	196	811	24	15
Total	5913	18161	33	27
Total relevant responses, i.e. sum of prob, "serious," "moderate," and "not a prob," but excluding response: "not applicable"	..	18161	..	..

Table H10. COT: Open-ended problems affecting Ind growth, Record 14, p.2, Part XI:

FREQUENCY DISTRIBUTION

Sl #	Ind Code	Problem unidentifed	Raw Material prob.	Lac of working capital	Comm/ Trans. prob.	Ancient mode of prod.	Lack of govt. support	Corr- uption	Natural calamities	Pol. Instability	DD Inflation	Row Total
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
1.	3118	4	4	9	0	0	0	0	0	0	0	17
2.	3119	3	5	31	12	0	3	0	0	0	0	44
3.	3208	52	195	131	0	5	5	28	44	1	9	463
4.	3413	15	4	4	1	0	0	0	5	0	0	29
5.	3612	0	11	67	3	9	1	0	34	0	14	139
6.	3691	14	8	28	0	2	0	0	10	0	0	62
7.	3829	4	2	0	1	0	0	0	0	0	1	8
8.	3949	0	1	0	0	0	0	0	0	0	1	2
9.	3950	17	3	5	4	1	0	0	0	0	0	30
Column Total		109	233	275	21	17	9	28	93	1	25	794
Row%		13.73	29.34	34.63	2.64	2.14	1.13	3.27	11.71	0.12	3.15	100

4.1-10
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Table H 11: COT Major reasons for leaving or not leaving occupation
Record 17

FREQUENCY DISTRIBUTION						
Sl	Ind Code	Leaving		Not Leaving		Row Total
		Trying to go abroad	Other Occupation Unknown	No scope to change occupation		
		(1)	(2)	(3)	(4)	
1.	3119	3	26	0		29
2.	3206	18	145	6		169
3.	3413	0	19	8		27
4.	3612	1	40	2		43
5.	3691	0	1	0		1
6.	3829	2	19	1		22
7.	3949	0	35	9		44
8.	3950	0	1	0		1
Column Total		24	286	25		336
Row A		7.14	85.12	7.74		100

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Table H 12:COT Reasons for Preferring Children to Leave/Continue Cot Occupation
Record 17

FREQUENCY DISTRIBUTION							
Sl #	Ind Code	To Leave		To Continue			Row Total
		Due to Present low returns	Not enough to meet family needs	Children Engaged in this Occupation	Family Occupation	Resource Constraints bar children to be employed elsewhere	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
1.	3119	0	3	0	0	16	19
2.	3206	17	40	28	4	71	160
3.	3413	4	1	8	1	4	18
4.	3612	2	5	7	3	11	28
5.	3691	0	1	0	0	0	1
6.	3829	0	4	1	1	10	16
7.	3949	5	1	22	6	3	37
8.	3950	0	0	0	0	0	0
Column Total		28	55	66	15	115	279
Row %		10.03	19.71	23.66	5.40	41.22	100

Table H 13: COT Measures Suggested for Govt. to Promote Cot Business, Record 15c

FREQUENCY DISTRIBUTION					
Sl No.	Ind Code	a. Give Easier Leading Facilities	b. Eliminate Blackmarketing	c. Give Adequate Govt. Support	Row Total
1.	3119	0	0	28	28
2.	3206	47	28	152	227
3.	3413	14	9	5	28
4.	3612	9	5	29	43
5.	3691	0	0	1	1
6.	3829	2	2	15	19
7.	3949	30	18	5	53
8.	3950	1	0	0	1
Column Total		103	62	235	400
Row %		25.75	15.5	58.75	100

Table # 14: COT Possible Reasons that led to bad years FIS: Cottage Shops
Record 14, 10.7.2

FREQUENCY DISTRIBUTION											
Sr #	Ind Code	Lack of Capital	ED Flux-tation	Input price increase	Raw Material price.	Lack of knowhow	Comm-union	Pol-instability	Climate-cost-rains	Ancient Mode of Prod.	Row Total
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
1.	3116	20	0	3	1	0	0	0	0	0	24
2.	3119	25	12	0	8	3	6	0	0	0	54
3.	3206	136	0	162	8	9	1	4	5	29	393
4.	3413	4	1	2	1	0	0	0	5	2	15
5.	3691	104	3	0	38	1	0	1	34	2	183
6.	3612	20	0	0	9	0	0	1	10	3	43
7.	3829	0	1	1	1	0	0	0	0	0	3
8.	3949	0	1	1	0	2	0	0	0	0	4
9.	3950	5	4	1	3	0	0	0	0	2	15
Column Total		314	22	170	69	15	7	6	93	38	734
Row#		43.0	3.0	23.2	9.4	2.0	1.0	.8	12.7	5.2	100

Table - MSB Agency Assistance, MIS : Cottage Industry

	Quintile					TOTAL
	1.00	2.00	3.00	4.00	5.00	
All Other Industries						
BASIC						1
Credit		1				.03
Training	1	1	2	1		5
	.4%	.4%	.8%	.4%		.4%
Grassroots Bank						60
Credit	10	14	15	14	6	4.7%
	2.9%	5.5%	4.3%	5.5%	2.3%	
Training				2		2
				.4%		.3%
Bangladesh Government						6
Credit		2		2	1	.3%
		.3%		.3%	.4%	
Other Misc				1		1
				.4%		.3%
Others						92
Credit	23	24	23	17	5	7.2%
	9.0%	9.4%	9.0%	6.6%	2.0%	

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Table H15—Contd.--2

	Quintile					TOTAL
	1.00	2.00	3.00	4.00	5.00	
B. Manila						
BSCIC Credit				1 .4%		1 .8%
NGOs : Foreign Credit	2 .5%	5 2.0%	1 .4%			8 .6%
Other Help	1 .4%	2 .8%	1 .4%			4 .3%
Grass-Root Credit	2 .8%	3 1.2%	6 2.4%	4 1.6%	3 1.2%	18 1.4%
Sanjaces: Government Credit	1 .4%		3 1.2%	3 1.2%	4 1.6%	11 .9%
Other Help		2 .8%				2 .2%
Others Credit	42 17.0%	30 11.7%	43 16.5%	54 21.1%	60 23.5%	229 18.1%

Table - HSE Agency Assistance, HIS : Cottage Industry--Contd.--3

	Quintile					TOTAL
	1.00	2.00	3.00	4.00	5.00	
c. TOTAL						
ESDIO Credit		1 .4%		1 .4%		2 .8%
Training	1 .4%	1 .4%	2 .8%	1 .4%		5 .2%
NGOs : Foreign Credit	2 .8%	3 1.2%	1 .4%			6 2.4%
Other Help	1 .4%	2 .8%	1 .4%			4 1.6%
Grassroot Bank Credit	12 4.8%	17 6.8%	22 8.8%	28 11.2%	9 3.6%	78 30.8%
Training				1 .4%		1 .4%
Bangladesh Government Credit	1 .4%	2 .8%	1 .4%	1 .4%	3 1.2%	8 3.2%
Other Help	1 .4%	1 .4%		1 .4%		3 1.2%
Others Credit	37 14.8%	51 20.4%	33 13.2%	71 28.4%	25 10.0%	217 86.8%
d. TOTAL (All Agency) Credit	53 21.4%	75 30.0%	56 22.4%	99 39.2%	75 30.0%	408 162.0%
Training	1 .4%	1 .4%	2 .8%	3 1.2%		7 2.8%
Other Help	2 .8%	4 1.6%	1 .4%	1 .4%		8 3.2%

A. Aggregate

	Commercial Banks	Government Development Bank	Trust Bank	Money Lenders	Suppliers of Raw Materials	Friends or Family	None	Other	TOTAL
Industry									
Edible Oils									
Quintile									
1.00						100			100
2.00						100			100
4.00						100			100
Handloom Textiles									
Quintile									
1.00	10			40		50			100
2.00	9			46	27	18			100
3.00			11	45	11	33			100
4.00		8	8	61	8	15			100
5.00	10		14	71		5			100
Glass and ceramic									
Quintile									
1.00							100		100
Pottery & clay product									
Quintile									
1.00	10			20		48	38		116
2.00				33		67	22		132
3.00				25		75			100
4.00				100					100
Handicraft n.e.c.									
Quintile									
1.00						100			100
Other manu Ind(B&B)									
Quintile									
3.00					100				100
4.00						50		50	100
Wool Products									
Quintile									
3.00	33					67			100
4.00								100	100
5.00				100					100

ES

Table H1' --ERA's by product by size class, 1987-88

Product	Large	Small
Hand pump	1.307	1.555 ^a
Cotton vests	6.34	6.313 ^b
Cotton shirting	5.07	5.72 ^a
Polyester Shirting grey	1.46	1.571
Leather shoe and sandal	2.709	2.674 ^b
Paints and Enamels	1.346	1.328
Cycle tube	2.039	2.087

^aMajor difference only due to the disparity in labor costs due to labor laws.

^bUnlike most cases, large percentage of value added of these industries is due to capital.